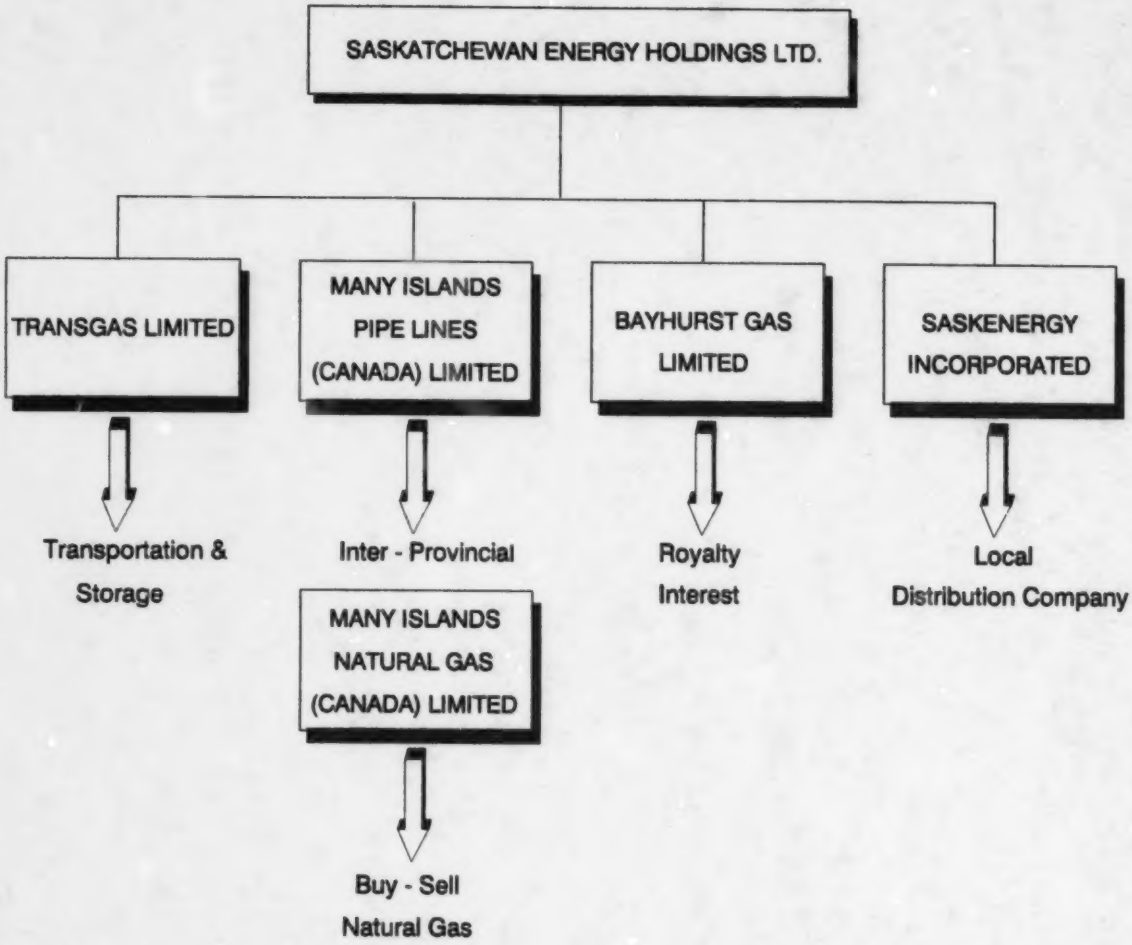
SASKATCHEWAN ENERGY HOLDINGS LTD.

1999

ANNUAL REPORT



Many Islands Pipe Lines (Canada) Limited, Many Islands Natural Gas (Canada) Limited and Bayhurst Gas Limited do not have any employees. The affairs of these companies are managed by Saskatchewan Energy Holdings Ltd. and TransGas Limited.

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LETTER OF TRANSMITTAL

May 14, 1992

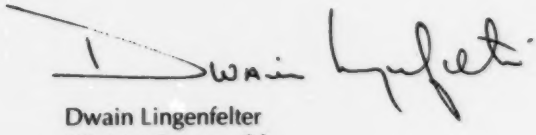
To Her Honour
Sylvia O. Fedoruk
Lieutenant Governor of the
Province of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of Saskatchewan Energy Holdings Ltd. for the year ended December 31, 1991. The Financial Statements have been duly certified by the Corporation's auditors.

I have the honour to be, Madam,

Your obedient servant,



Dwain Lingenfelter
Minister Responsible
Saskatchewan Energy Holdings Ltd.

CHAIRMAN'S MESSAGE

Since its inception in 1988, Saskatchewan Energy Holdings Ltd. (SEHL) and its wholly owned subsidiaries, SaskEnergy Incorporated and TransGas Limited, continue to adapt to the many changes in the natural gas industry. Ever increasing competition in both the traditional and direct sale markets as a result of deregulation have presented the Corporation with challenging opportunities.

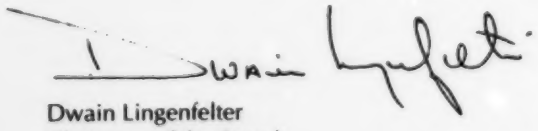
Due to SEHL's efforts in streamlining operations and promoting cost-effective processes, the Corporation remains a profit making entity. A highly trained workforce puts emphasis on providing superior customer service.

Serving over 291,000 farm, residential, commercial and industrial customers, SaskEnergy continues to address industry issues in innovative ways. Its long term and competitively priced gas supply has ensured its customers that SaskEnergy is a reliable and responsible natural gas provider.

SEHL is committed to participating in research of non-traditional natural gas applications. The Electrical Energy Options Review Panel recommended that cogeneration be studied as a viable alternative to Saskatchewan's future energy needs. Furthermore, SaskEnergy is continuing its feasibility studies of natural gas vehicles, while supporting the marketing of natural gas appliances.

The Saskatchewan Financial Management Review Commission recommended SEHL be given crown corporation status through legislation to be passed in 1992, and the Corporation's financial reports tabled. The Commission also noted SEHL's financial position would be improved once the debt related to the gain on sale of the natural gas assets is returned to SaskPower. Actions have been initiated to comply with the Commission's findings.

The Corporations are positioned to serve Saskatchewan through creative initiatives and will assist in creating an improved economic future for the Province.



Dwain Lingenfelter
Chairman of the Board

PRESIDENT'S REPORT

The success of this Corporation depends upon the commitment of its people – whether union or management - working together on common objectives. I am very pleased to report that one of our achievements this year was the formation of a Joint Dialogue Committee comprised of representatives from both union and management. Congratulations to our union executive and members and all SaskEnergy and TransGas people for their commitment to this process. Their achievements included the Gas Serviceman Training Program, the Employee Development Program, and Employee Orientation Seminars.

In 1991, SEHL focused on increasing efficiency and reducing expenses. We continue to provide Saskatchewan residents with the second lowest natural gas rates in Canada. From a financial perspective, the Corporation's net income for 1991 was $27 million, representing a $2 million increase over 1990. Although revenues were lower in 1991 – partially due to customers moving to purchase natural gas from sources other than SaskEnergy – they were offset by lower expenses resulting from operational efficiencies, decreased natural gas prices, and lower gas purchase requirements. I am pleased to report our continued commitment to Saskatchewan industries resulted in more than 90 per cent of SEHL's spending for goods and services in Saskatchewan.

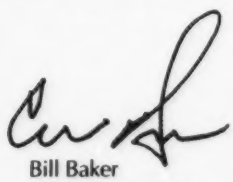
Record volumes of natural gas were transported on TransGas facilities during 1991, representing a nine per cent increase over 1990 levels to 7,850 $10^6 m^3$ (279 Bcf). A ever-increasing share of this – 75 per cent – originated from within Saskatchewan.

Capital expenditures for 1991 were $113 million compared to $62 million for 1990. A major transmission pipeline project from Rosetown to Regina was completed in 1991 on time and within budget. The 287 kilometres of 16-inch pipeline provides increased north to south system capacity for Saskatchewan producers and consumers, and significantly reduces third party transportation services.

A major financial issue facing SEHL in 1991 was its high level of debt. As of December 31, 1991, approximately 89 per cent of the Corporation's financing was in the form of long term debt and only 11 per cent from equity. This meant high debt service costs for the Corporation and exposure to higher interest rates as the debt is refinanced in the future. Reducing this debt will strengthen the financial position of the Corporation and allow SaskEnergy and TransGas to maintain competitive rates. As noted in the Financial Statements, in 1992 SEHL entered into a Memorandum of Undertaking with Crown Investments Corporation of Saskatchewan (CIC) and Saskatchewan Power Corporation (SPC) whereby $226 million of long term debt will be returned to SPC on July 1, 1992. This debt relates to SEHL's 1988 and 1989 purchase of assets from SPC.

Future opportunities for the Corporation include facilitating cogeneration, expanding the use of natural gas for motor vehicles, promoting the use of natural gas appliances, and expanding transmission and storage facilities to meet increasing customer requirements. SaskEnergy and TransGas will play aggressive roles in capitalizing on these opportunities.

SEHL has initiated environmental audit programs to assess the level of compliance of our facilities with relevant legislation, policies and industry standards. Natural gas is part of the solution in addressing global environmental problems and it will have a major role in reducing greenhouse gases and improving air quality. This Corporation is committed to being part of that process, while serving its customers and helping the Province overcome its current economic hardships.



Bill Baker
President & CEO

CORPORATE PROFILE

Prior to deregulation in 1987, natural gas sales were regulated and prices set by agreement between the federal and Alberta governments. Saskatchewan natural gas producers were required to sell gas to Saskatchewan Power Corporation (SPC). This discouraged gas exploration and development.

With deregulation, producers began selling directly to provincial customers and to a growing export market. Saskatchewan Energy Holdings Ltd. (SEHL) was created in 1988, recognizing the inherent competition between gas and electricity as energy sources.

Saskatchewan Energy Holdings Ltd., the holding company, provides the overall strategic direction, legal, senior financial and audit services to its subsidiaries.

There are two principal operating subsidiaries:

- SaskEnergy Incorporated (SaskEnergy) is the gas utility that purchases natural gas and transports it through the TransGas Limited transmission system. SaskEnergy receives this gas and through its own distribution system of pipelines, metering devices and other equipment, sells, supplies and delivers it to homes, farms, commercial and industrial customers. SaskEnergy's distribution system is also used to deliver gas to consumers buying directly from producers.

- TransGas Limited (TransGas) is the natural gas transmission company that owns and operates transmission, gathering, compression, treatment and storage facilities within the province of Saskatchewan. Natural gas is transported for SaskEnergy, producers, industrial and commercial customers. TransGas' interconnections with other systems (Foothills Pipelines, TransCanada PipeLines, Northern Natural Gas Company) provide access to eastern Canadian and United States markets for Saskatchewan producers.

SEHL has two other subsidiary companies:

- Bayhurst Gas Limited is authorized to purchase and sell gas. It owns a gross overriding royalty on petroleum and natural gas properties.

- Many Islands Pipe Lines (Canada) Limited (MIPL(C)L), a company regulated by the National Energy Board, owns compression facilities and transmission lines that are used to transport gas from Alberta to Saskatchewan, and a pipeline that transports natural gas from the United States border to the TransCanada PipeLines interconnection point at Herbert, Saskatchewan. MIPL(C)L's subsidiary, Many Islands Natural Gas (Canada) Limited is authorized to purchase and sell natural gas.

FINANCIAL REVIEW

BACKGROUND AND REORGANIZATION

In 1988, Saskatchewan Energy Holdings Ltd. (SEHL) purchased substantially all of the natural gas assets of Saskatchewan Power Corporation (SPC), a related Provincial Crown corporation.

SEHL purchased the assets at appraised value which exceeded SPC's book value by $243 million.

SEHL financed the purchase of the assets by issuing promissory notes to SPC and assuming certain liabilities. At the time of the asset purchase, SEHL was a wholly owned subsidiary of SPC. On December 31, 1989, SPC sold all of its interest in SEHL to Crown Investments Corporation of Saskatchewan (CIC), a related Provincial Crown corporation.

Generally accepted accounting principles do not allow for assets to be sold among related parties at amounts exceeding net book value. Therefore, for external financial reporting purposes, SEHL adjusted the value of these assets purchased from SPC to the net book value.

As noted above, SEHL financed the purchase of assets from SPC with debt. The only equity in SEHL consists of retained earnings accumulated from June 1, 1988 to December 31, 1991.

Thus, at December 31, 1991, the Corporation's long term financing consisted of 89 per cent debt – $814 million, and 11 per cent equity – $99 million.

With such a high debt/equity ratio, the Corporation became burdened with debt service costs and an excessive exposure to future increases in interest rates as the debt matures.

In order to address the issues of a high debt load and the excess purchase price paid to SPC, in May 1992, SEHL entered into a Memorandum of Undertaking with CIC and SPC. In accordance with the terms of the agreement, CIC will effect a capital reorganization of SEHL.

Subject to the terms of the agreement, effective July 1, 1992, $226 million of SEHL's long term debt will be transferred to SPC in exchange for common shares in the same amount to be issued by SEHL to CIC.

As a result of this debt transfer,

the financial condition of the Corporation will improve significantly. It is expected that lower debt service costs resulting from a more reasonable debt/equity ratio will enable the Corporation to hold rates in a range that will protect the competitive position of Saskatchewan's natural gas customers and producers.

1991 Financial Results

The Corporation recorded net earnings of $27 million which was an increase of $2 million over 1990.

The major factors which affected 1991 net earnings were increased transportation revenue and lower cost of gas. These factors, however, were partially offset by lower distribution revenue.

Transportation revenue was higher primarily because of an increase in the volume of natural gas transported for export.

The cost of gas decreased due to lower sales volumes and lower prices. Prior to November 1, 1991, about 30 per cent of the Corporation's natural gas was purchased from TransCanada PipeLines Ltd. (TCPL). The price paid to TCPL was variable depending upon prices at the Alberta border. As natural gas prices fell during 1991, the cost of the Corporation's purchases from TCPL was reduced accordingly. Therefore, the lower prices paid to TCPL contributed to the lower cost of gas.

The lower distribution revenue was partially caused by lower sales volumes resulting from customers purchasing their natural gas from sources other than SaskEnergy. These lower sales volumes, however, also resulted in lower cost of gas. Customers purchasing natural gas from sources other than SaskEnergy are referred to as "direct sale" customers. Consumers were given the option to purchase natural gas directly from producers and marketers after deregulation of the natural gas industry in 1987.

Capital expenditures were $113 million which was a significant increase over 1990 capital expenditures of $62 million. A number of projects were completed in 1991 including a major transmission pipeline expansion from Rosetown to Regina which was commissioned October 26, 1991.

SEHL recognizes the financial problems facing the Province of Saskatchewan. As a result, a concerted effort was undertaken in 1991 to reduce costs, and to increase revenues.

The Corporation is part of the solution to revitalizing the economic prosperity of the Province.

DISTRIBUTION

SaskEnergy Incorporated, the natural gas distribution subsidiary of Saskatchewan Energy Holdings Ltd., is committed to ensuring our customers have a reliable and secure supply of natural gas.

The distribution system consists of over 58,000 kilometres of plastic and steel pipe. The network served 291,694 customers and 784 communities as at December 31, 1991. Residential and farm class of customers account for the largest percentage of total sales for consumption and revenue.

The Natural Gas Distribution Program (GDP) continued during 1991, providing natural gas to about 2,400 customers in rural Saskatchewan at a cost of approximately $16.5 million.

Over the past ten years, SaskEnergy has expanded its gas distribution network to about 90 per cent of Saskatchewan homes and businesses at a total cost of nearly $314 million. Over 24,000 rural and 12,000 urban customers have received service under the GDP.

However, installation costs have been heavily subsidized by SaskEnergy customers. The ongoing demand for natural gas service under the program placed a financial burden on SaskEnergy due to the high capital cost to provide service under the current program compared to the revenue generated. On April 3, 1992, the Corporation announced that the GDP was terminated due to a shortage of funds.

Three-Year Operating Summary

	1989	1990	1991
Sales (10^6m^3)	1,885	1,809	1,714
Average annual usage per residential customer (m^3)	3,825	3,576	3,638
Degree Days	5,921	5,590	5,472
Customers at year end *	287,472	289,672	291,694
Pipelines (km)	51,664	55,691	58,031

* **Number of Active Services**

SaskEnergy Incorporated
Number of Active Services
(As at December 31)

	1989	1990	1991
Residential	235,522	235,890	236,834
Farm	17,969	19,638	20,599
Commercial	33,538	33,739	33,881
Industrial	138	134	117
Total Retail	287,212	289,401	291,431
Internal Usage	260	271	263
Total Customers	287,472	289,672	291,694

Distribution

Deregulation of natural gas, announced in 1987, has provided producers with new and larger market opportunities and enabled purchasers to seek the lowest price of gas. SaskEnergy continues to respond to the reduction in load requirements which has resulted from direct sales. The current gas supply strategy and portfolio incorporates the following:

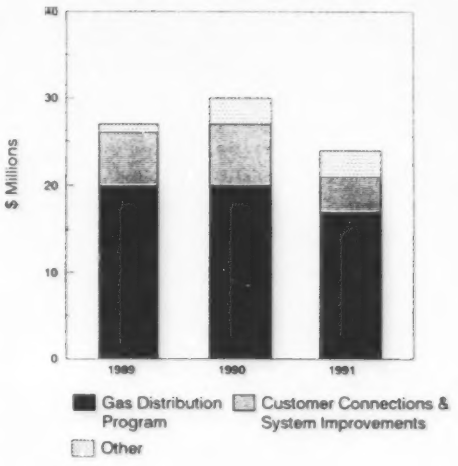
- The TransCanada PipeLines Limited contract held by SaskEnergy was allowed to expire November 1, 1991 providing a new opportunity to diversify the portfolio and increase purchases of Saskatchewan supply.

- The amount of gas purchased from Saskatchewan producers as a percent of the total supply portfolio has grown from 33 per cent in 1982 to 65 per cent in 1991.

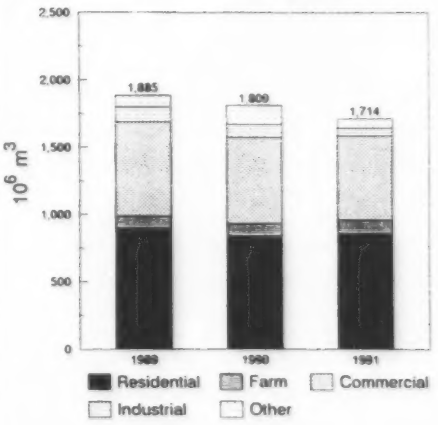
SaskEnergy currently administers 167 supply contracts with 70 companies. As of November 1, 1991, SaskEnergy's negotiated gas purchase price is the lowest price for long term contracts currently being paid by any utility in Canada.

In order to achieve cost savings, effective January 1, 1992, SaskEnergy commenced mailing its bills jointly with SaskPower where customers have both a gas and electric service. This will result in a combined annual savings to SaskEnergy and SaskPower of $725,000. Approximately one half of the savings accrue to each company.

Distribution Capital Expenditures



Annual Sales Volume



Distribution

The public generally understands that natural gas is the environmentally preferred fossil fuel. Environmental awareness should present load growth potential as consumers shift to the most environmentally friendly energy source. Natural gas is a valuable energy source in Saskatchewan, presenting opportunities beyond traditional space and water heating. In 1991, SaskEnergy influenced an increase in non-traditional applications for natural gas such as, ranges, clothes dryers, fireplaces, barbecues, radiant heaters for garages and patios, and patio lanterns. SaskEnergy has begun to pursue this market by promoting the use of these products in various ways.

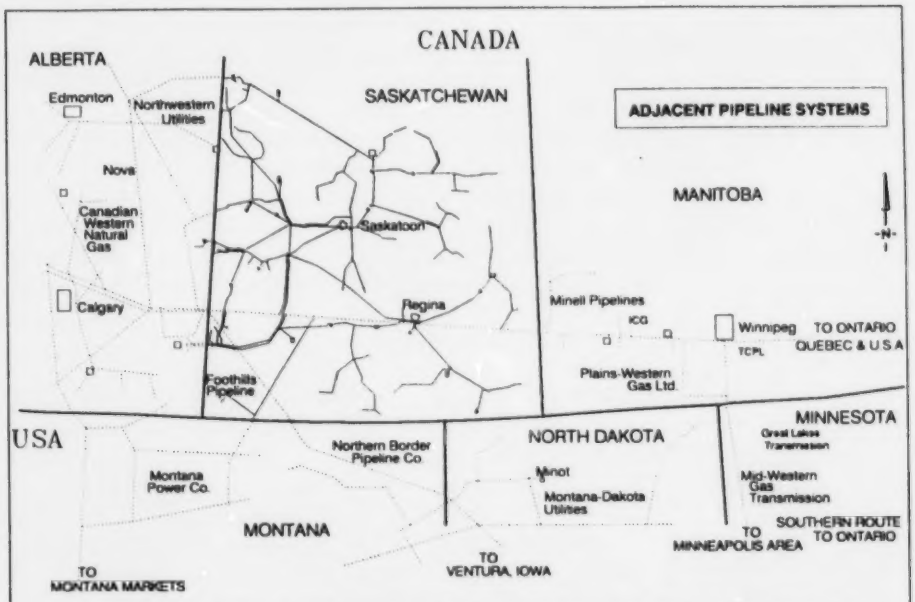
The Smart Choice Sales Club encourages employees to spot non-traditional appliance sales opportunities. For SaskEnergy, it develops marketing oriented employees while increasing their job satisfaction. A Dealers Association has been formed with SaskEnergy acting as a facilitator encouraging these dealers to stock and promote non-traditional natural gas appliances.

Natural gas vehicles (NGV) are increasing in popularity as environmental, safety and cost advantages become recognized. There are currently more than 26,000 natural gas powered vehicles and 170 public and private fuelling stations in Canada.

SaskEnergy is pursuing the benefits of natural gas as an alternative vehicle fuel. In 1991, SaskEnergy's NGV program consisted of converting over 15 corporate and selected fleet vehicles throughout the province to natural gas; installing three mini natural gas fuelling stations in Saskatoon, Regina and Kindersley; and installing 7 fuel makers (home compressors) at various locations. SaskEnergy's adaption of corporate vehicles to natural gas was used to evaluate the viability of NGV in Saskatchewan. The Company plans to expand its NGV involvement to promote natural gas sales.

SEHL, in conjunction with SaskPower, gas producers and gas users, is reviewing opportunities for cogeneration in the province. SEHL views its role as a facilitator to promote the use of natural gas in the province in order to more fully utilize its pipelines, as well as promote natural gas development and improve the competitiveness of its customers.

TRANSMISSION AND STORAGE



TransGas Limited is well-connected to take advantage of market opportunities throughout Canada and the United States. TransGas is studying the feasibility of accessing additional markets.

The year 1991, was one of significant growth for TransGas Limited, the subsidiary of Saskatchewan Energy Holdings Ltd. responsible for the transmission and storage of natural gas.

Record volumes of natural gas transported, increases in the number of customers and contracts, and pipeline additions marked another very successful year for TransGas.

Since deregulation, TransGas has been aggressive in supporting the natural gas industry within Saskatchewan.

In addition to pursuing strategies to reduce operating costs and adding facilities to access new reserve areas, TransGas has initiated formal Customer meetings to keep Customers apprised of current plans and to provide a forum to address areas of concern. Some of the major activities in 1991 include:

1) Customers

Natural gas was first exported from Saskatchewan in 1986 when one natural gas producer held a single contract allowing gas volumes to be transported from the Province. At the end of 1991, 50 export customers held over 200 contracts to export gas. Similar growth was experienced within the intra-provincial sector where by the end of 1991, 230 direct sales customers had 514 contracts to transport gas directly to their business and institutions. These customers purchase gas directly from producers and contract with TransGas for transportation service.

TransGas' natural gas storage service also experienced significant growth in 1991, resulting in 61 contracts accounting for 12,973 10^3m^3 per day of deliverability. Natural gas storage service allows customers to receive uniform deliveries of natural gas from producer wells, while providing the supply to meet peaking requirements thereby lowering costs. Natural gas beyond current requirements is injected into storage facilities and withdrawn when required.

2) Operations

TransGas Limited and Many Islands PipeLines (Canada) Limited (MIPL(C)L) own and operate over 12,000 kilometres of gathering and transmission pipeline in Saskatchewan. In addition, 22 compressor stations are capable of producing 82,675 brake horsepower (bhp).

Transmission capacity was added in 1991 with the completion of the Rosetown-Regina pipeline and compression facilities at Paynton, North Battleford and Rosetown. Some of the key operational statistics are shown in the following table:

	1989	1990	1991
Pipelines (kilometres)			
TransGas			
Transmission	11,067	11,202	11,712
Gathering	398	399	418
MIPL(C)L	354	354	354
	11,819	11,955	12,484
Compressor Stations			
TransGas	17	18	20
MIPL(C)L	2	2	2
	19	20	22
Compression Horsepower (bhp)			
TransGas	60,175	64,075	77,685
MIPL(C)L	5,100	5,100	5,100
	65,275	69,175	82,785
Peak Day Gas Flows			
10^3m^3	31,637	33,750	33,151
Date	Dec. 21	Dec. 28	Jan. 8

2) Operations (continued)

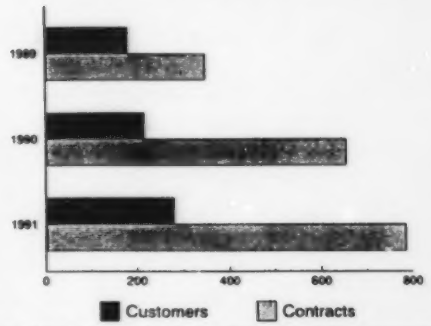
The record peak day occurred on December 28, 1990, with 33,750 $10^3 m^3$ gas transported on that day (approximately 1.2 billion cubic feet). Due to weather, the peak day set in 1990 was not surpassed, however, 1991 was another record-setting year for natural gas volumes transported in Saskatchewan. There was 7,850 $10^3 m^3$ (279 Bcf) of natural gas delivered to customers and export pipeline systems within Saskatchewan. This represents a nine percent increase over 1990 and 24 percent increase over 1989. Approximately 75 per cent of the total 1991 volumes originated in Saskatchewan.

3) Capital Expenditures

TransGas spent $89 million in 1991 adding transmission capacity, upgrading storage facilities, connecting new customers, and developing its own system control centre.

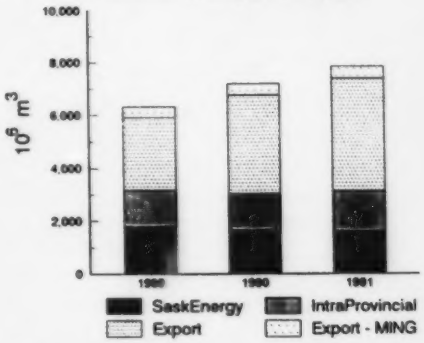
The majority of the expenditures relate to the construction of the Regina to Rosetown pipeline - 287 kilometres of 16-inch pipeline which was placed into service in late October. In 1991, construction of the Loreburn Compression station (4,500 bhp) was started and will be completed by November 1, 1992. The pipeline added 3,660 $10^3 m^3$ per day (130 MMcf/d) of north to south capacity and with the completion of the compressor station in 1992, the capacity will reach 5,070 $10^3 m^3$ per day (180 MMcf/d).

Transmission Customers / Contracts



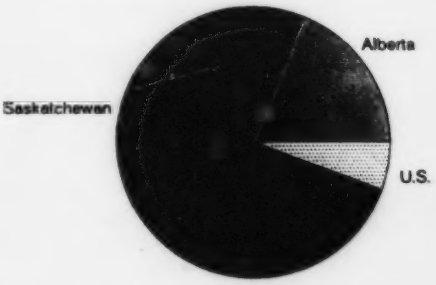
In 1991 the number of natural gas transmission customers increased by 31% while the number of contracts increased by 28%.

Annual Transport Volumes



1991 natural gas volumes increased by 9% over 1990 levels and by 24% over 1989.

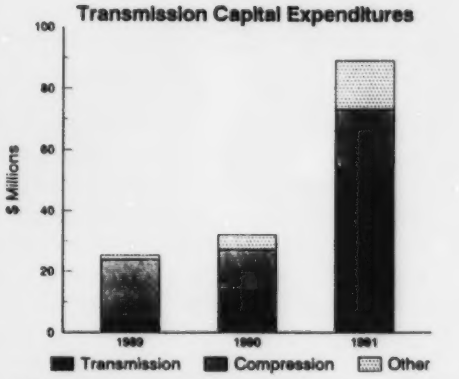
1991 Annual Transport Volumes



75% of natural gas volumes transported through SaskEnergy facilities were sourced from Saskatchewan.

3) Capital Expenditures

The pipeline satisfies the significant load growth experienced in the Regina area. Furthermore, it reduces considerably the costs of transportation service provided by other parties within the Province. The pipeline cost was $40 million while the compressor station is estimated to cost $6 million.



1991 capital expenditures increased dramatically over prior years due to significant increases in pipeline capacity and storage facility improvements.

Another major undertaking initiated in 1991 was the development of the Moosomin Storage Caverns. The project includes three storage caverns and production facilities, with a pipeline to the main grid system, and is estimated to cost a total of $22 million. The development will have a staged completion with two caverns scheduled to be in service by late 1993 and the remaining cavern in service the following year.

Due to the long lead times required in storage cavern development, TransGas committed to the development of this facility in 1991 in order to meet forecasted requirements in 1993 and 1994.

The transmission and compression network has become increasingly complex in recent years with the addition of new suppliers, exporters, and direct sale customers. As a result, the operation and control over these facilities has also become more demanding. The main objective of TransGas Operations is to achieve the most economic and efficient operation while satisfying all customer requirements.

The Supervisory Control and Data Acquisition (SCADA) is a system which is used to manage and control the natural gas flows through the pipeline system. Remote monitoring and control is part of the SCADA system. The development of an independent SCADA system was initiated in 1990 and is expected to be fully operational by September 1992. The system has been developed to allow for future growth and enhancements as well as interactions with other corporate systems. The project is expected to cost $3 million over three years.

ENVIRONMENT PROGRAMS

Activities for 1991 focused on developing and implementing programs that allow operations to be conducted in a more environmentally conscientious and responsible manner.

Strategies developed for 1991 included:

- integrating environmental values into the project planning process;
- implementing materials and waste management procedures;
- promoting environmental awareness amongst employees, contractors, suppliers and customers; and
- identifying environmental opportunities and issues.

Procedures were established to ensure that all new projects are subjected to an environmental review. This information enables employees to redesign facilities to minimize environmental effects. Public consultation has resulted in a more effective and conscientious design process.

Materials and waste management practices have been reviewed and new procedures developed to ensure that increased levels of environmental protection and employee safety are achieved. Staff training has been conducted on the proper handling and disposal of materials.

A comprehensive assessment of waste disposal sites continued in 1991, in order to establish any necessary remediation programs. In addition to major centres, corporate paper recycling initiatives have expanded to include some district offices. Procurement policies are being developed to reduce, reuse and recycle.

An environmental audit program has been initiated to assess the level of compliance of our facilities with relevant legislation, policies and accepted industry standards. Audit procedures manuals have been prepared and several operational reviews completed.

Achieving corporate environmental objectives is the responsibility of all employees. Communications

strategies have been developed to provide relevant information to all employees.

Environment programs included the establishment of a joint union/management Environmental Awareness Committee whose mandate is to identify issues and strategies to improve environmental performance and awareness.

The Corporation contributed to industry and government environmental task forces.

Activities included participation in the Canadian Gas Association's Environment Managing and Indoor Air Quality Committees, Saskatchewan's Electrical Energy Options Review Panel, Saskatchewan's Environmental Assessment Review Commission and the Great Sand Hills Land Use Plan initiative. We will respond to the environmental challenges and opportunities of the future.

Natural gas is the environmentally preferred fossil fuel and we will continue to promote its benefits.

A continuing emphasis will be placed on assessing and evaluating programs and projects to ensure environmental considerations are fully integrated into all corporate initiatives.

As environmental protection legislation and government programs evolve, the Corporation will continue to play a proactive role.

HUMAN RESOURCES

At SEHL, the commitment to people is the number one priority. Knowledge of the business and commitment to the Corporation's objectives is essential to the successful delivery of quality customer service.

Rapidly changing technology together with a competitive marketplace requires continuous upgrading of skills. It is our intention to encourage and provide everyone within the Corporation the opportunity to further develop their skills and potential.

The Corporation's commitment of resources to people is reflected in the following achievements:

- The initiation of the Direct Dialogue process with the Energy and Chemical Workers Union which jointly addresses common areas of concern such as training and development issues.
- The development and implementation of a New Employee Orientation process and program in cooperation with the Energy and Chemical Workers Union.
- The promotion of training and skills up-grading and distribution of employee communications such as the Training and Development Calendar and Training Bulletins.
- Redevelopment and streamlining of the Gas Serviceman Training Program incorporating modular training techniques.
- Recognition of the stresses employees may face from time to time initiated the Employee and Family Assistance Program.
- Further development of community sponsorship programs reflecting the Corporation's values and goals. Employees participate in a broad range of community activities, with special focus on activities related to education, science, youth, and the environment. Among other initiatives, Corporation employees volunteer for Junior Achievement of Saskatchewan, Career Days, school presentations of natural gas seminars, and the province wide Science Fairs, of which SaskEnergy is the official sponsor.

The Corporation's commitment to safety is demonstrated by its above average safety record in comparison to other natural gas companies. The Corporation had the second lowest frequency rate among the Canadian Gas Association members. A significant milestone was reached in an Operations area attaining thirteen years without any lost time injuries.

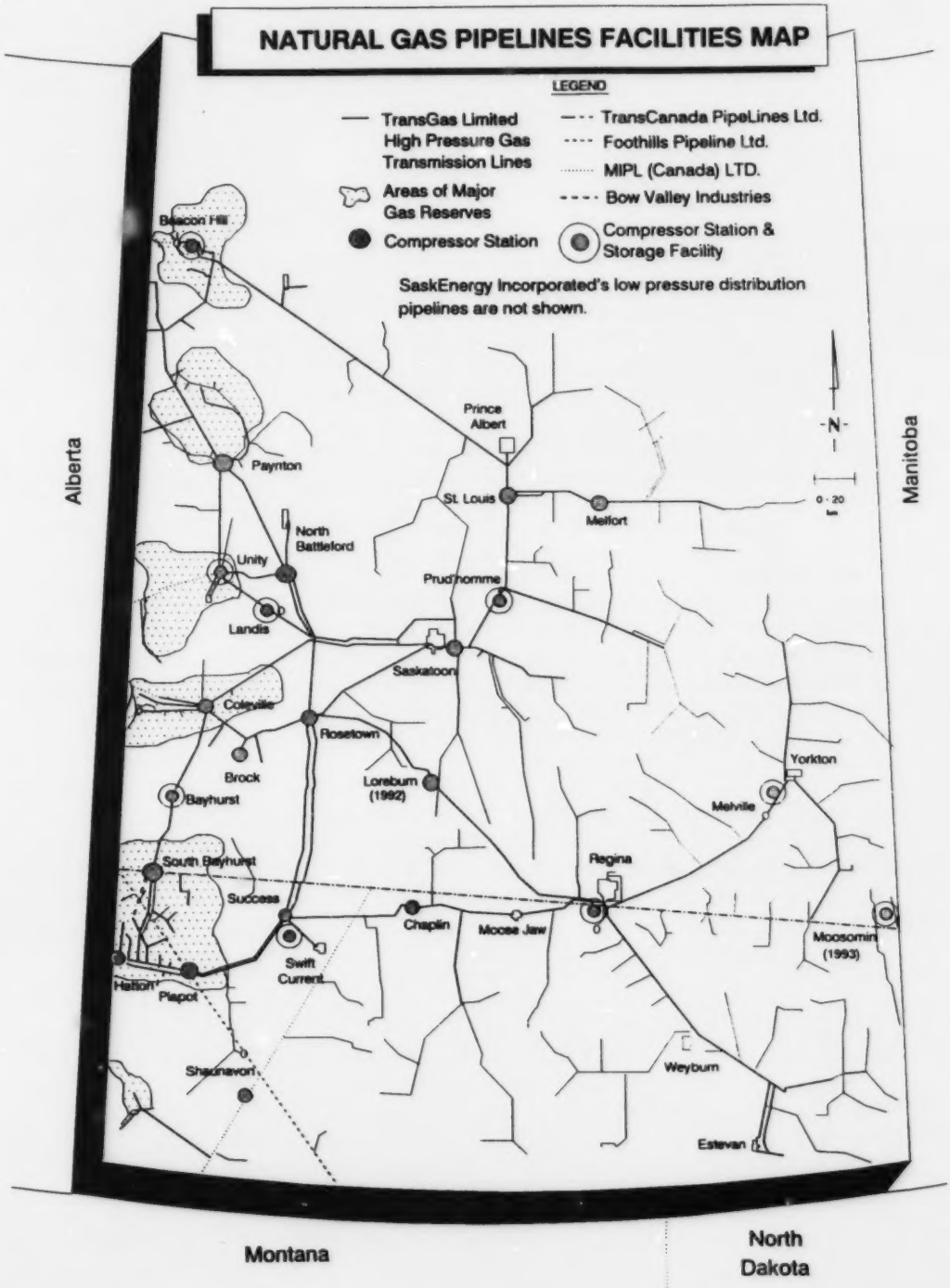
FUTURE OUTLOOK

Natural gas is recognized as one of the solutions in addressing the environmental challenges that the world now faces. As usage continues to expand, further opportunities will be created for areas such as Saskatchewan which is abundant in supply and strategically located to take advantage of existing transportation corridors.

SEHL is part of an industry whose future holds great potential. There are opportunities for the Corporation to be part of the solution in addressing the problems facing the Saskatchewan economy.

Some of these opportunities are:

- Facilitate cogeneration (the simultaneous production of heat and electricity from a single fuel source) to cost effectively meet future electrical demand and allow industries which can utilize cogeneration to be more competitive.
- Encourage increased use of natural gas in both traditional and non-traditional markets such as water heaters, cooking, and clothes drying.
- Expand the use of natural gas for motor vehicles by facilitating the establishment of an infrastructure within Saskatchewan to allow for the growth in the use of natural gas.
- Support the activities of the Natural Gas Appliance and Equipment Dealers Association whose mandate is to increase the economic use of natural gas through the range of appliances available.
- Develop interconnections with other pipeline systems to provide gas producers with additional markets, provide consumers with greater gas supply access, and earn a reasonable return.
- Respond to the need for additional transmission and storage capacity which provides an adequate rate of return.
- Continue the Corporation's commitment to the development of our people in order to keep pace with rapidly changing technology. To meet future needs, the Corporation has commenced succession planning.

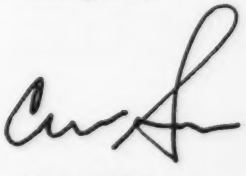

NATURAL GAS PIPELINES FACILITIES MAP
LEGEND
TransGas Limited High Pressure Gas Transmission Lines
TransCanada PipeLines Ltd.
Foothills Pipeline Ltd.
MIPL (Canada) LTD.
Bow Valley Industries
Areas of Major Gas Reserves
Compressor Station
Compressor Station & Storage Facility
SaskEnergy Incorporated's low pressure distribution pipelines are not shown.
Alberta
Manitoba
Montana
North Dakota
Beacon Hill
Paynton
Prince Albert
St. Louis
Melfort
North Battleford
Unity
Landis
Prudhomme
Saskatoon
Coleville
Rosetown
Brock
Bayhurst
Loreburn (1992)
Yorkton
Melville
South Bayhurst
Success
Regina
Chaplin
Moose Jaw
Moosomin (1993)
Swift Current
Hatton
Piapot
Shaunavon
Weyburn
Estevan
N
0 - 20

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

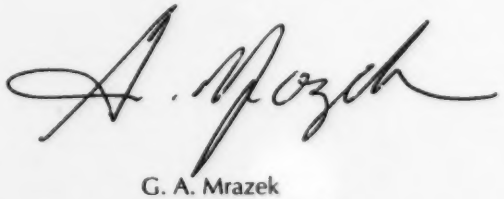
The Management of Saskatchewan Energy Holdings Ltd. is responsible for the integrity of the accompanying consolidated financial statements and all other information contained in this annual report. The financial statements have been prepared in accordance with generally accepted accounting principles in Canada and applied on a consistent basis. The Corporation's Board of Directors have reviewed and approved the financial statements.

Management maintains a system of internal controls in order to ensure the integrity of the information that forms the basis of the financial statements. The internal control systems provide reasonable assurance that transactions are executed in accordance with proper authorization, that assets are properly guarded against unauthorized use and that reliable records are maintained. In establishing a system of internal controls, Management must ensure that the costs of such internal controls do not exceed the benefits derived therefrom.

The consolidated financial statements have been audited by Ernst & Young, Chartered Accountants. Their report, which appears on the next page, expresses their opinion on the fairness of the financial statements prepared by Management.



C. W. Baker
President and CEO



G. A. Mrazek
Corporate Controller

AUDITORS' REPORT

TO THE SHAREHOLDER OF SASKATCHEWAN ENERGY HOLDINGS LTD.

We have audited the consolidated statement of financial position of Saskatchewan Energy Holdings Ltd. as of December 31, 1991 and the consolidated statements of earnings and retained earnings and changes in cash position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluation of the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1991 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Ernst & Young

Chartered Accountants

Regina, Canada
February 7, 1992,
except for Note 12 which is
as of May 13, 1992.

Saskatchewan Energy Holdings Ltd.
Consolidated Statement of Financial Position
As At December 31

	1991	1990
	(thousands of dollars)	
ASSETS		
CURRENT ASSETS		
Accounts receivable	$ 55,321	$ 53,945
Inventories of supplies	4,278	4,151
Natural gas in storage	26,998	19,383
	86,597	77,479
NATURAL GAS IN STORAGE	46,371	45,109
PROPERTY, PLANT AND EQUIPMENT (Notes 2 & 3)	738,997	628,799
Less accumulated depreciation	44,645	29,848
	694,352	598,951
	$ 827,320	$ 721,539
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES		
Short term debt (Note 4)	$ 32,768	$ 54,383
Accounts payable	69,004	66,189
Current portion of long term debt (Note 4)	27,714	31,074
	129,486	151,646
DEFERRED INCOME	30,550	24,195
LONG TERM DEBT (Notes 2 & 4)	567,923	464,021
SHAREHOLDER'S EQUITY		
Share capital (Note 5)	-	-
Retained earnings	99,361	81,677
	99,361	81,677
	$ 827,320	$ 721,539

COMMITMENTS (Note 6)

(See accompanying notes)

On behalf of the Board:

Director Director

Saskatchewan Energy Holdings Ltd.
Consolidated Statement of Earnings and Retained Earnings
For the Year Ended December 31

	1991	1990
	(thousands of dollars)	
DISTRIBUTION REVENUE	$ 241,037	$ 251,971
COST OF GAS	87,377	103,538
Distribution margin	153,660	148,433
TRANSPORTATION REVENUE	77,681	74,447
	231,341	222,880
EXPENSES		
Operating, maintenance and administration	105,697	103,315
Interest (Note 4)	81,871	80,422
Depreciation	16,328	13,817
	203,896	197,554
NET EARNINGS	27,445	25,326
RETAINED EARNINGS, beginning of year	81,677	71,531
Continuity of interest adjustment (Notes 2 & 4)	(9,761)	(15,180)
RETAINED EARNINGS, end of year	$ 99,361	$ 81,677

(See accompanying notes)

Saskatchewan Energy Holdings Ltd.
Consolidated Statement of Changes in Cash Position
For the Year Ended December 31

	1991	1990
	(thousands of dollars)	
CASH PROVIDED BY (USED IN) OPERATIONS		
Net earnings	$ 27,445	$ 25,326
Add (deduct) items not requiring an outlay of cash		
-Depreciation	16,328	13,817
-Amortization of deferred income	(536)	(367)
-Other non-cash items	1,145	-
	44,382	38,776
Net change in non-cash working capital related to operations (Note 7)	(6,070)	(6,953)
Cash provided by operating activities	38,312	31,823
CASH PROVIDED BY (USED IN) INVESTMENTS		
Additions to natural gas in storage	(1,262)	930
Additions to property, plant and equipment	(112,873)	(62,434)
Increase in deferred income	6,891	7,714
Net change in non-cash working capital related to investments (Note 7)	(5,060)	7,042
Cash used in investment activities	(112,304)	(46,748)
NET CASH DEFICIENCY BEFORE FINANCING	(73,992)	(14,925)
CASH PROVIDED BY (USED IN) FINANCING		
Increase (decrease) in long term debt	90,780	(51,485)
Net change to non-cash working capital related to financing activities (Note 7)	4,827	22,003
Cash provided by (used in) financing activities	95,607	(29,482)
INCREASE (DECREASE) IN CASH during year	21,615	(44,407)
CASH POSITION, beginning of year	(54,383)	(9,976)
CASH POSITION, end of year	$ (32,768)	$ (54,383)

Cash consists of cash less short term debt.

(See accompanying notes)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis. The following accounting policies are considered to be significant:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, SaskEnergy Incorporated, TransGas Limited, Bayhurst Gas Limited, Many Islands Pipe Lines (Canada) Limited (MIPL(C)L), and MIPL(C)L's wholly-owned subsidiary Many Islands Natural Gas (Canada) Limited. All intercompany accounts and transactions have been eliminated on consolidation.

b. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at average cost.

c. Natural gas in storage

Natural gas in storage is stated at the lower of cost or net realizable value. Gas removed from storage is accounted for on an average cost basis.

d. Property, plant and equipment

Property, plant and equipment purchased in 1988 and 1989 from a related party are recorded at the related party's net book values. All other property, plant and equipment are stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of each asset.

Retirement or sale of a major capital asset, or class of capital assets, is accounted for by relieving the asset accounts of the associated cost and accumulated depreciation. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Other retirements of assets are recorded by reducing the asset account with the cost of the asset and charging this amount, net of proceeds received, to accumulated depreciation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Depreciation expense is calculated on a straight-line basis over the estimated service life of the asset.

e. Deferred income

Deferred income consists of contributions in aid of construction relating to new service connections. These contributions are amortized on a straight-line basis over the estimated service life of the related asset.

f. Revenue recognition

Distribution revenue is recognized when natural gas is delivered to customers. An estimate of gas delivered, but not billed, is included in revenue.

Revenue is recognized when transportation and storage services are provided to customers. An estimate of transportation and storage services rendered, but not billed, is included in revenue.

2. CONTINUITY OF INTEREST ADJUSTMENT

In 1988 and 1989, the Corporation acquired substantially all of the natural gas operations of Saskatchewan Power Corporation (SPC), a related Provincial Crown Corporation. The assets were acquired at appraised values. The appraised values exceeded SPC's net book values by $243,395 thousand.

Consideration given to SPC was in the form of debt and assumption of certain obligations of SPC.

As SPC is a related party, for financial reporting purposes, the purchased assets and related debt were adjusted by $243,395 thousand to reinstate the net book values of SPC as they were prior to the purchase. In these consolidated financial statements, this adjustment is referred to as a continuity of interest adjustment.

The continuity of interest adjustment is amortized to retained earnings in proportion to the principal repaid each year on debt relating to the purchase of the assets referred to above.

3. PROPERTY, PLANT AND EQUIPMENT

	1991		1990	
	(thousands)			
	Adjusted Cost (Note 2)	Accumulated Depreciation	Adjusted Cost (Note 2)	Accumulated Depreciation
Distribution	$327,041	$18,257	$309,469	$13,020
Transmission and storage	303,990	18,331	242,285	12,364
Gathering, treatment and compression	65,869	4,161	35,143	2,313
Vehicles, equipment and other	22,536	3,554	14,562	1,941
Royalty interest	6,831	342	6,831	210
Construction in progress	12,730	-	20,509	-
	$738,997	$44,645	$628,799	$ 29,848

Annual rates of depreciation vary from 2.1 to 3.5 per cent for transmission and distribution assets. Other assets are depreciated at rates varying from 3 to 22 per cent. Application of these rates is equivalent to a composite rate of 2.4 per cent during 1991 (2.4 per cent during 1990).

4. LONG TERM DEBT

All long term debt is due to the Corporation's parent, Crown Investments Corporation of Saskatchewan.

	1991		1990	
Years to Maturity	Principal Outstanding (thousands)	Average Interest Rate	Principal Outstanding (thousands)	Average Interest Rate
1 - 5	$ 65,851	7.23	$ 72,125	7.11
6 - 10	155,591	11.50	55,591	13.38
11 - 15	372,309	10.59	281,993	10.59
16 - 20	226,649	9.56	316,965	9.75
	820,400		726,674	
Less sinking fund equity	(6,310)		(3,364)	
Long term debt	814,090		723,310	
Less current portion	(27,714)		(31,074)	
Less continuity of interest adjustment	(218,453)		(228,215)	
	$ 567,923		$ 464,021	

4. LONG TERM DEBT (continued)

The continuity of interest adjustment does not affect the Corporation's obligation to repay the full amount of the long term debt noted above as $814,090 thousand. See note 2.

The continuity of interest adjustment is amortized to retained earnings in proportion to the principal repaid each year on debt relating to the purchase of the assets referred to in Note 2. The amortization to retained earnings was $9,761 thousand in 1991 ($15,180 thousand in 1990).

Principal repayments and sinking fund installments due in each of the next five years are as follows: (thousands)

1992	1993	1994	1995	1996
$30,104	$7,647	$35,014	$2,229	$57,821

Interest associated with major capital and development projects is capitalized during the construction period at the weighted average interest rate of long term debt in the current year. During 1991, $2,997 thousand was capitalized ($643 thousand during 1990).

Interest expense was as follows: (thousands)

	1991	1990
Interest on long term debt	$82,660	$79,012
Interest expense on short term debt less interest income on short term deposits	(789)	1,410
	$81,871	$80,422

Included in short term debt is an amount of $28,925 thousand (1990 - $52,949 thousand) due to Crown Investments Corporation of Saskatchewan. This debt has an average interest rate of 7.38% fixed to March 31, 1992.

5. SHARE CAPITAL

Share capital consists of the following:

Class of Shares	Authorized	Issued	1991	1990
First Preferred	Unlimited	None	$ 0	$ 0
Second Preferred	Unlimited	None	0	0
Class B Common	Unlimited	10	10	10
Class A Common	Unlimited	None	0	0
			$ 10	$ 10

The shares were issued for nominal consideration of ten dollars and all of the issued shares are owned by Crown Investments Corporation of Saskatchewan, a Provincial Crown Corporation.

6. COMMITMENTS

The Corporation has $1,292,033 thousand (1990 - $1,402,248 thousand) of forward natural gas purchase commitments based on 1991 year end prices and contract deliveries extending up to 16 years.

7. STATEMENT OF CHANGES IN CASH POSITION

	1991	1990
	(thousands)	
The net change in non-cash working capital related to operations consists of:		
Accounts receivable	$ (1,376)	$ (3,581)
Inventories of supplies	(127)	(37)
Accounts payable	3,048	678
Natural gas in storage	(7,615)	(4,013)
	$ (6,070)	$ (6,953)
The net change in non-cash working capital related to investments consists of:		
Accounts payable	$ (5,060)	$ 7,042
The net change in non-cash working capital related to financing consists of:		
Accounts payable	$ 4,827	$22,003

8. RELATED PARTY TRANSACTIONS

In 1990, the Corporation paid $1,000 thousand to a subsidiary of Crown Investments Corporation of Saskatchewan for an option. The option entitled the Corporation to purchase a portion of the subsidiary's investment in Saskferco Products Inc. The Corporation did not exercise the option before its expiry date and therefore the full $1,000 thousand option payment was retained by the subsidiary.

Included in these consolidated financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown-controlled departments, agencies and related corporations.

Account balances resulting from these transactions are included in the consolidated statement of financial position and are settled on normal trade terms.

9. PENSION PLANS

Substantially all employees of the corporations included in these consolidated financial statements are members of either a defined contribution or a defined benefit pension plan.

In accordance with the terms of the respective defined contribution and defined benefit pension plans, the corporations' obligations are limited to making regular payments to the plans to match contributions made by the employees for current services.

10. INCOME TAX

As the Corporation is a wholly owned subsidiary of a Provincial Crown Corporation, the Corporation and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

11. COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

12. SUBSEQUENT EVENTS

In May 1992 the Corporation entered into a Memorandum of Undertaking with Crown Investments Corporation of Saskatchewan (CIC) and Saskatchewan Power Corporation (SPC), whereby CIC will effect a capital reorganization of the Corporation. Subject to the terms of the agreement, effective July 1, 1992, $226,400 thousand of the Corporation's long term debt will be transferred to SPC in exchange for common shares in the amount of $226,400 thousand to be issued by the Corporation to CIC. As a result of this debt transfer, the continuity of interest adjustment currently offset against the long term debt owing to CIC (see Notes 2 and 4) will be charged to shareholder's equity.

Board of Directors

Interim Board of Directors
October 30, 1991 to February 20, 1992

- Hon. Dwain Lingenfelter, Chairman
  Minister Responsible for SaskEnergy
- Hon. John Penner, Vice Chairman
  Minister of Energy and Mines
- Hon. Carol Teichrob
  Minister of Education
- Hon. Janice McKinnon
  Minister of Social Services

Board Members Effective February 20, 1992

- Hon. Dwain Lingenfelter, Chairman
  Minister Responsible for SaskEnergy
- Hon. John Penner, Vice Chairman
  Minister of Energy and Mines
- Dr. Mary Fowler
  Geologist, Saskatoon
- Victor Godenir
  Real Estate Agent, Swift Current
- Donald Mintz
  Chartered Accountant, Regina
- Debbie Packet
  Farmer, Benson
- John Sadler
  Consultant, Winnipeg

CORPORATE INFORMATION

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S4P 3C4

SASKENERGY INCORPORATED
HEAD OFFICE

2221 CORNWALL STREET
P.O. BOX 3839
REGINA, SASKATCHEWAN
CANADA
S4P 3R8

TRANSGAS LIMITED
HEAD OFFICE

#1500 - 1945 HAMILTON STREET
P.O. BOX 67
REGINA, SASKATCHEWAN
CANADA
S4P 2Z5

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